

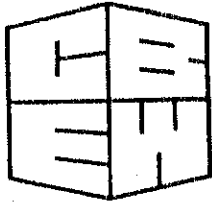
**KEYSTONE RURAL GAS DISTRICT #1
TULSA COUNTY
Sand Springs, Oklahoma**

**BASIC FINANCIAL STATEMENTS
October 31, 2018**

KEYSTONE RURAL GAS DISTRICT #1
TULSA COUNTY
Sand Springs, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

February 13, 2019

Board of Directors
Keystone Rural Gas District No. 1
Tulsa County
Sand Springs, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Keystone Rural Gas District No. 1, Tulsa County, Sand Springs, Oklahoma (the Organization), as of and for the years ended October 31, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Keystone Rural Gas District No. 1, Tulsa County, Sand Springs, Oklahoma as of October 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2019, on our consideration of the Keystone Rural Gas District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Keystone Rural Gas District No. 1's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma

STATEMENT OF NET POSITION
October 31, 2018 and 2017

	<u>October 31,</u> <u>2018</u>	<u>October 31,</u> <u>2017</u>
Current assets:		
Cash and cash equivalents (Note 1)	\$ 603,755	\$ 468,208
Investments (Note 1)	164,749	163,528
Receivables (net of allowance for uncollectible)	9,321	-
Accrued interest receivable	509	504
Prepaid insurance	3,473	5,849
Inventory	17,100	14,407
Total current assets	<u>798,907</u>	<u>652,496</u>
Capital assets:		
Buildings, gas system, equipment and vehicles net of depreciation (Note 2)	<u>150,034</u>	<u>165,000</u>
Total capital assets	<u>150,034</u>	<u>165,000</u>
Total assets	<u>\$ 948,941</u>	<u>\$ 817,496</u>
Deferred outflows of resources:		
Total deferred outflows	<u>-</u>	<u>-</u>
Current liabilities:		
Accounts payable	\$ 3,508	\$ 4,305
Accrued payroll	4,778	4,562
Accrued compensated absences	3,010	2,992
Payroll liabilities payable	4,009	3,750
Sales tax payable	(1,071)	(1,061)
Customer pre-payments	-	20,156
Customer deposits	64,062	56,161
Current portion of notes payable	-	-
Total current liabilities	<u>78,296</u>	<u>90,865</u>
Long-term liabilities:		
Notes payable	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>78,296</u>	<u>90,865</u>
Deferred inflows of resources:		
Total deferred inflows	<u>-</u>	<u>-</u>
Net Position:		
Net investment in capital assets	150,034	165,000
Unrestricted	<u>720,611</u>	<u>561,631</u>
Total net Position	<u>\$ 870,645</u>	<u>\$ 726,631</u>

The accompanying notes are an integral part of the basic financial statements.

KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma

STATEMENT OF ACTIVITIES
For the Year Ended October 31, 2018 and 2017

	<u>October 31,</u> <u>2018</u>	<u>October 31,</u> <u>2017</u>
Revenues:		
Gas sales	\$ 571,847	\$ 418,812
Late Fees	4,494	5,162
Meter Svc/Tap Fees	1,325	3,550
Other income	391	691
Total revenues	<u>578,057</u>	<u>428,215</u>
Expenses:		
Accounting and legal	11,941	12,173
Bad debt	(1,254)	(430)
Board Compensation	7,195	7,245
Contract services	-	3,892
Depreciation	51,084	50,186
Equipment Rental	75	74
Fuel	3,248	6,976
Gas purchases	82,204	86,224
Gas transportation costs	30,594	32,792
Insurance	44,224	35,964
Miscellaneous	983	577
Office supplies and postage	5,580	11,108
Payroll taxes	14,692	12,894
Postage	3,857	4,436
Repair and maintenance	5,976	14,317
Retirement contributions	3,466	2,104
Salaries	162,515	138,996
Telephone	2,742	3,197
Training/Education	6,071	4,432
Uniforms	3,237	3,612
Utilities	3,078	3,438
Total expenses	<u>441,508</u>	<u>434,208</u>
Operating income	<u>136,549</u>	<u>(5,994)</u>
Other income and expense:		
Interest income	3,869	2,935
Gain (loss) on sale of asset	3,600	-
Total other income and expense	<u>7,469</u>	<u>2,935</u>
Change in net position-Net income	144,018	(3,059)
Net position - beginning of year	<u>726,627</u>	<u>729,686</u>
Net position - end of year	<u>\$ 870,645</u>	<u>\$ 726,627</u>

The accompanying notes are an integral part of the basic financial statements.

KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma

STATEMENT OF CHANGES IN NET POSITION
For the Year Ended October 31, 2018 and 2017

	Net Position (Unrestricted)	Net Position (Temporarily Restricted)	Total Net Position
Balance - beginning of year 10/31/16	\$ 729,686	\$ -	\$ 729,686
Change in net position	<u>(3,059)</u>	<u>-</u>	<u>(3,059)</u>
Balance - end of year 10/31/17	<u>\$ 726,627</u>	<u>\$ -</u>	<u>\$ 726,627</u>
 Balance - beginning of year 10/31/17	 \$ 726,627	 \$ -	 \$ 726,627
Change in net position	<u>144,018</u>	<u>-</u>	<u>144,018</u>
Balance - end of year 10/31/178	<u>\$ 870,645</u>	<u>\$ -</u>	<u>\$ 870,645</u>

The accompanying notes are an integral part of the basic financial statements.

KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma
STATEMENT OF CASH FLOWS
For the Year Ended October 31, 2018 and 2017

	October 31, 2018	October 31, 2017
Cash flows from operating activities:		
Cash received from customers	\$ 548,263	\$ 438,014
Cash payments to suppliers for goods and contractors and other services	(382,837)	(394,444)
Net cash provided by operating activities	<u>165,426</u>	<u>43,570</u>
Cash flows from capital and related financing activities:		
Acquisition & construction of capital assets	(32,118)	(540)
Net cash used in capital and related financing activities	<u>(32,118)</u>	<u>(540)</u>
Cash flows from investing activities:		
(Purchase) liquidation of investments	(1,630)	(1,142)
Interest income	3,869	2,935
Net cash provided by investing activities	<u>2,239</u>	<u>1,793</u>
Net increase (decrease) in cash	135,547	44,823
Cash and cash equivalents at beginning of year	468,208	423,385
Cash and cash equivalents at end of year	\$ <u>603,755</u>	\$ <u>468,208</u>
Reconciliation of operation income to net cash provided by operating activities:		
Operating income (loss)	\$ 136,549	\$ (5,994)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	51,084	50,186
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(9,321)	(31.00)
(Increase) decrease in prepaid expenses	2,376	(714)
(Increase) decrease in inventory	(2,693)	3,522
Increase (decrease) in customer deposits	7,901	(3,657)
Increase (decrease) in customer pre-payments	(20,156)	7,023
Increase (decrease) in accounts payable	(797)	(8,730)
Increase (decrease) in sales tax payable	(10)	(28)
Increase (decrease) in accrued payroll payable	216	2,462
Increase (decrease) in accrued compensated absences payable	18	(780)
Increase (decrease) in payroll taxes payable	259	311
Total adjustments	<u>28,877</u>	<u>49,564</u>
Net cash provided by operating activities	\$ <u>165,426</u>	\$ <u>43,570</u>

The accompanying notes are an integral part of the basic financial statements.

KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
October 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Keystone Rural Gas District, Tulsa County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing natural gas to the members it serves. Membership in the gas district consists of gas users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The more significant of the government's accounting policies are described below.

A. Reporting Entity

Keystone Rural Gas District No. 1 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing gas services is financed through user charges. The District purchases the majority of its gas from Tiger, Inc.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

All the bank deposits are held at one financial institution and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
October 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk

At October 31, 2018, the District held deposits of approximately \$768,507 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at October 31, 2018 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	10.29	N/A	164,749	164,749
Total investments			<u>\$ 164,749</u>	<u>\$ 164,749</u>

KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
October 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 100% in Certificates of deposit.

2. Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

4. Inventories

Inventories consist primarily of gas line supplies for the addition of new gas lines and repair of old gas lines. Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market.

5. Capital Assets

Additions to the gas storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Non-cash contributions relate to both existing and new members of the District. If installation of gas lines is required to a member's property, the District performs this service for the member at cost. The member's payment for such installation is recorded as a capital asset contribution. The District maintains a capitalization threshold of \$500 and an estimated useful life in excess of two (2) years.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Gas system	10-50 years
Buildings	10-25 years
Equipment	7-20 years
Office equipment	7-10 years
Vehicles	5 years

**KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
October 31, 2018 and 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure. The expense and related liability for vacation benefits is recorded in the financial statements.

7. Customer Deposits

The District requires that every customer pay a cash deposit upon opening or re-establishing an account with the District to guarantee payment on the account for gas service rendered. When the service is terminated, the deposit is refunded or applied to the outstanding balance due the District. The District maintains a cash reserve sufficient for payment of these deposits. The reserve amount is included in the District's cash and cash equivalents. Interest earned on customer deposits is used for operations of the District.

D. Revenues, Expenses and Other Changes in Net Assets

1. Operating Revenues and Expenses

Operating revenues and expenses are principally from gas sales and connection fees charged to new system subscribers. Customer gas consumption is determined by monthly meter readings taken by District personnel. The gas sales from subscriber gas consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net assets as accounts receivable. Operating expense consist of those costs necessary to operate and maintain the gas distribution system and for general administration of the District.

2. Non-Operating Revenue and Expenses

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the District's notes payable and gains and losses on sales or the abandonment of long-lived assets.

3. Bad Debts

The District uses the direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivable are charged to income during the period they are determined to be uncollectible. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
October 31, 2018 and 2017

2. CAPITAL ASSETS

The following is a summary of changes in property, plant and equipment.

	Balance October 31, 2017	Additions	Deletions	Balance October 31, 2018
Buildings	68,356	-	-	68,356
Gas System & Equipment	1,129,230	970	-	1,130,200
Office equipment	14,352	-	-	14,352
Vehicles	47,386	35,148	20,581	61,953
Total	1,259,324	36,118	20,581	1,274,861
Less accumulated depreciation	1,094,324	51,084	20,581	1,124,827
Net	<u>\$ 165,000</u>	<u>\$ (14,966)</u>	<u>\$ -</u>	<u>\$ 150,034</u>

	Balance October 31, 2016	Additions	Deletions	Balance October 31, 2017
Buildings	68,356	-	-	68,356
Gas System & Equipment	1,129,050	180	-	1,129,230
Office equipment	13,992	360	-	14,352
Vehicles	47,386	-	-	47,386
Total	1,258,784	540	-	1,259,324
Less accumulated depreciation	1,044,138	50,186	-	1,094,324
Net	<u>\$ 214,646</u>	<u>\$ (49,646)</u>	<u>\$ -</u>	<u>\$ 165,000</u>

**KEYSTONE RURAL GAS DISTRICT NO. 1
TULSA COUNTY
Sand Springs, Oklahoma**

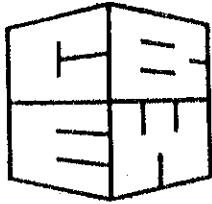
**NOTES TO THE BASIC FINANCIAL STATEMENTS
October 31, 2018 and 2017**

4. RISK MANAGEMENT

Keystone Rural Gas District No. 1 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**KEYSTONE RURAL GAS DISTRICT #1
TULSA COUNTY
Sand Springs, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
October 31, 2018**



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

February 13, 2019

Board of Directors
Keystone Rural Gas District No. 1
Tulsa County
Sand Springs, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Keystone Rural Gas District No. 1, Tulsa County, Sand Springs, Oklahoma (the District), as of and for the year ended October 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 13, 2019. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses as findings 2018-001 and 2018-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

**KEYSTONE RURAL GAS DISTRICT #1
TULSA COUNTY
Sand Springs, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended October 31, 2018**

2018-001. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The district's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions as compensating procedures where applicable.

Responsible Official's Response: The district concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the district has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

2018-002. Internal Control – Material Adjusting Journal Entries

Criteria: The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The government's trial balances for the year ended October 31, 2018, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: fixed asset purchases and accounts receivable.

**KEYSTONE RURAL GAS DISTRICT #1
TULSA COUNTY
Sand Springs, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended October 31, 2018**

Cause: The government's accounting and financial reporting staff lacks the necessary expertise, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions in regards to the trial balances.

Recommendation: The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary expertise and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: The District concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.